



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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### House Budget Chairman's Mark for 2005 Budget Resolution: Deficits and Deferred Answers

#### Overview

The Chairman's mark has the same flaws as the President's budget. Both budgets add billions of dollars to the deficit and public debt. Neither budget does anything to protect Social Security from growing pressures of the retiring baby boom generation. And both budgets provide more tax cuts at the expense of other national priorities. Over five years, the Chairman's mark provides \$9.2 billion (0.2 percent) less than the President in discretionary spending, and \$41.7 billion (0.6 percent) less than the President in mandatory spending. Both the President and House Republicans cut taxes at the expense of key domestic services and our public debt.

#### Chairman's Mark Adds Billions of Dollars to Our Growing Deficits and Fails to Put Social Security on Solid Footing

***The Budget Resolution Makes the Growing Deficit Worse*** — In January 2001, based on then-current law, CBO projected a \$432.9 billion *surplus* for 2005. After three years of the Bush Administration's fiscal policies, we are facing a \$363.3 billion *deficit* in 2005, and that is before any new tax cuts or other policies the President is proposing. Those policies already enacted have taken \$5.6 trillion in projected surpluses for the period between 2002 and 2011 and turned them into at least \$2.9 trillion in deficits. That is an \$8.5 trillion reversal in the fiscal position of the U.S. Government. Like the President's budget, the Chairman's mark continues to dig the hole deeper, with a deficit of \$377.7 billion in 2005.

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**House Budget Committee Chairman's Mark versus CBO Baseline**  
(in Billions of Dollars)

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	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2005 to</u> <u>2009</u>
Deficits in CBO Baseline*	323	197	182	183	170	1,055
Deficits under Chairman's**	352	252	233	232	232	1,302
<b>Increases in the deficit due to the plan</b>	<b>29</b>	<b>55</b>	<b>51</b>	<b>49</b>	<b>62</b>	<b>247</b>

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*Source: Center on Budget and Policy Priorities. Rows and columns may not add due to rounding.*

*\* CBO March 2004 baseline adjusted to treat the \$87 billion fiscal year Iraq supplemental as a one-time cost.*

*\*\* To be comparable with the CBO baseline, excludes the \$50 billion fiscal year 2005 supplemental for operations in Iraq that is part of the Chairman's mark.*

***The Chairman's Mark Increases Deficits Almost As Much As the President's Budget*** — From 2004 through 2009, and adjusting for the Chairman's inclusion of some costs for the war in Iraq (which the President's budget omits), the deficit in the Chairman's mark is better than the President by only \$70.1 billion — a difference of only about \$14 billion per year on average.

***Much of the Difference Between the Chairman's Mark and the President Comes from Omitting Some of the President's Tax Cuts*** — About \$31.6 billion of the \$70.1 billion difference — 45 percent — comes from higher revenues assumed in the Chairman's mark. In other words, almost half of the difference in the bottom line in the Chairman's mark comes from omitting some of the President's proposed tax cuts. If Republicans really want more tax cuts, of course, then that difference goes away. Extending the research and experimentation tax credit, plus the President's one-year Alternative Minimum Tax (AMT) fix, would wipe out that \$31.6 billion of five-year deficit reduction.

***The Chairman's Mark, Like the President's Budget, Leaves Social Security in Peril*** — As Federal Reserve Chairman Alan Greenspan recently made clear before the House Budget Committee, if the Republicans want to make their tax cuts permanent, they will have to consider cuts in entitlement programs such as Social Security. And though the President's budget and the Chairman's mark both limit their horizons to five years, both the President and House Republican leadership have indicated they want to make the tax cuts permanent. Indeed, the Chairman's mark, like the President's budget, spends the entire \$1.0 trillion Social Security surplus from 2005 to 2009. A budget that is deep in deficit hinders any effort to make Social Security financially sound for current and future retirees and workers.

## **Discretionary Appropriations**

The Chairman's discretionary top line is similar to the President's. The Chairman's mark provides \$871.3 billion for 2005, including \$50 billion for contingency operations related to the

global war on terrorism. Excluding that \$50 billion, the budget provides \$821.3 billion<sup>1</sup> for 2005. It provides \$1.6 billion (0.2 percent) less than the President's request for 2005, and provides \$9.2 billion (0.2 percent) less than the President over five years.

<b>2005 Appropriations in Various Budgets</b> (Budget Authority in Billions of Dollars)				
	<b>2004*</b> <b><u>Freeze</u></b>	<b>2005</b> <b><u>Baseline</u></b>	<b>2005**</b> <b><u>Chairman's</u></b> <b><u>Mark</u></b>	<b>2005</b> <b><u>President</u></b>
Domestic Non-Homeland Security	343.2	353.3	342.7	339.4
International Affairs	26.8	27.2	26.9	31.6
National Defense	397.4	405.4	420.6	420.8
Homeland Security (domestic)	28.6	29.2	31.0	31.1
<b>Total</b>	<b>796.1</b>	<b>815.0</b>	<b>821.3</b>	<b>822.9</b>

\* The 2004 freeze figures exclude funding from the 2004 supplemental funding bill.

\*\* Excludes the \$50 billion in Iraq War costs in Function 920.

The Chairman's mark increases funding for both national defense and homeland security. These increases, along with the tax cuts, squeeze all other funding; the Chairman's mark cuts 2005 domestic non-homeland security funding just slightly below a freeze at the 2004 enacted level, and then increases it by only 0.5 percent in each succeeding year.

***Domestic Non-Homeland Security Funding Frozen for 2005*** — The Chairman's mark essentially freezes 2005 funding for programs outside of defense, international affairs, and homeland security. That \$342.7 billion for domestic non-homeland security programs is \$10.5 billion (3.0 percent) below the amount needed to maintain services at the 2004 level.

- ***Funding Falls Further Behind Each Year*** — Because domestic non-homeland security funding increases by only 0.5 percent each year, it falls further behind the amount needed to maintain services at the 2004 level. By 2009, the budget cuts \$36.9 billion (9.5 percent) from the amount needed to keep pace with inflation.
- ***All Domestic Increases Offset by Bigger Cuts Elsewhere*** — The slight increases in 2005 above the amount needed to maintain services in some functions (including veterans, education, and administration of Social Security programs) are more than offset by cuts in other key government services such as child care, Section 8, environmental protection and science. And even these small increases for 2005 are not maintained: in 2008 and 2009,

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<sup>1</sup>The "Summary of the Chairman's Mark" shows \$818.7 billion in discretionary funding and displays the \$2.5 billion for BioShield in the mandatory total. The Chairman's budget function tables behind the summary include the \$2.5 billion for BioShield as discretionary funding and show a 2005 discretionary total of \$821.3 billion, excluding Iraq War costs, as displayed in the table on this page.

only defense funding maintains the 2004 level of services – *every other budget function fails to keep pace with inflation.*

- **Many Areas Cut Below Last Year's Level** — The Chairman's mark cuts seven budget functions to levels below a freeze at the 2004 level. The areas cut include:
  - ▶ **environmental protection** — cut by \$1.6 billion in 2005, and by \$6.4 billion over five years;
  - ▶ **health** — cut by \$358 million in 2005;
  - ▶ **community and regional development** — cut by \$782 million in 2005, and by \$1.6 billion over five years;
  - ▶ **general government** — cut by \$2.0 billion in 2005, and by \$9.0 billion over five years; and
  - ▶ **agriculture** — cut by \$320 million in 2005, and by \$1.1 billion over five years.
- **Low Level of Funding Imperils All Programs** — Republican promises about their 2005 increases for high-priority budget functions, such as education and veterans, will be virtually impossible to keep. Their unrealistically low non-defense total, along with their cut of nearly \$5 billion below the President's request for international affairs, will not allow the Appropriations Committee to maintain funding for their "priority" programs. It seems unlikely that Appropriators can impose such deep cuts in the many budget areas that the Chairman's mark suggests (child care and Section 8 housing, environmental protection, public health, general government) to increase funding for the few areas highlighted in the Chairman's mark. The more likely outcome is slightly smaller budget cuts in all areas, including the programs that the Republicans purport to protect.

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**Chairman's Mark for Five Years vs. 2004 Current Services:**

Discretionary funding vs. CBO's 2005 baseline excluding 2004 supplemental  
(Budget Authority in Billions of Dollars)

	2005*	2006	2007	2008	2009	2005-2009
Domestic Non-Homeland Security	-10.6	-15.2	-21.9	-29.1	-36.9	-113.7
International Affairs	-0.2	-0.5	-0.9	-1.3	-1.8	-4.7
National Defense	15.2	28.8	40.5	52.0	63.0	199.5
Homeland Security (domestic)	1.8	2.6	3.5	4.0	4.8	16.7
<b>Total</b>	<b>6.2</b>	<b>15.7</b>	<b>21.3</b>	<b>25.7</b>	<b>29.2</b>	<b>98.0</b>

\* Excludes the \$50 billion in Iraq War costs in Function 920.

- **Defense Increase Squeezes All Other Programs** — The Chairman's mark increases total 2005 funding by \$6.2 billion above the amount needed to maintain services at the 2004 level, but increases defense funding by \$15.2 billion. Assuming general agreement to increase defense funding by an amount close to the President's request, Congress will have to cut all other funding.

***Defense Funding Slightly Below President's Budget*** — The Chairman's mark, excluding the \$50 billion reserve fund, provides essentially the same level for national defense as the President. The \$420.6 billion for 2005 is \$23.2 billion (5.8 percent) above the 2004 enacted level excluding emergency supplemental funding for the war. Over five years, the budget provides \$48 million less than the President, and \$330.1 billion above a freeze at the 2004 enacted level. The national defense total includes \$10.4 billion in homeland security funding for 2005.

***International Funding Slashed Below President's Budget*** — The Chairman's mark provides \$26.9 billion for international affairs in 2005, which is \$4.7 billion (14.7 percent) below the President's request and just 0.6 percent above a freeze at the 2004 level.

***Homeland Security Funding 0.5 Percent Below President's Budget*** — The Chairman's mark cuts the President's non-Department of Defense homeland security request by \$155 million for 2005 and by \$857 million over five years.

## Cuts to Mandatory Spending

***Reconciliation Instructions Concerning "Waste, Fraud, and Abuse"*** — The Chairman's mark provides reconciliation instructions to five House authorizing Committees to report legislation by July 15, 2004, producing \$13.2 billion in savings over five years to be accomplished by reducing "waste, fraud, and abuse." The Ways and Means Committee can meet its target by any combination of reducing expenditures and increasing revenues; the other four committees must meet their targets by cutting spending. Last year, the Chairman's mark instructed 13 authorizing committees to find \$470 billion over ten years in mandatory savings; these reconciliation instructions were later dropped in conference.

<b>Budget Resolution Reconciliation Instructions by House Authorizing Committee (Outlays in Millions of Dollars)</b>		
	<b><u>2005</u></b>	<b><u>2005-2009</u></b>
Agriculture	-110	-371
Education and Workforce	-5	-43
Energy and Commerce	-410	-2,185
Government Reform	-170	-2,365
Ways and Means (deficit reduction via revenue increases or spending cuts)	(1,126)	(8,269)
<b>Total</b>	<b>-1,821</b>	<b>-13,233</b>

***Reconciliation Instructions Cut Medicaid and State Children's Health Insurance Program by Up to \$2.2 Billion*** — The reconciliation instructions direct the Committee on Energy and Commerce to cut spending by \$2.2 billion over five years. While both Medicaid and Medicare are in the Committee's jurisdiction, the majority stated that Medicare cuts were not on the table for discussion. Therefore, Medicaid and the State Children's Health Insurance Program (SCHIP) will

have to shoulder the weight of this \$2.2 billion in spending cuts, because they constitute the bulk of spending left in the Energy and Commerce Committee's jurisdiction. Furthermore, according to the terms of the "deficit-neutral reserve fund" for the Family Opportunity Act, if this bill extending Medicaid coverage for disabled children is enacted, the Energy and Commerce Committee will need to find approximately an additional \$2.0 billion in offsets.

***Budget Assumes Cuts to Income Security Programs*** — The Chairman's mark assumes a net spending reduction of \$3.1 billion over five years for income security, which includes programs such as Temporary Assistance for Needy Families, the Earned Income Tax Credit, unemployment insurance, and public employee retirement benefits. However, the budget also assumes a \$2.2 billion increase for welfare reauthorization, consistent with the Republican welfare reform bill approved by the House last year. Therefore, in order to pay for welfare reauthorization and remain consistent with the budget resolution, the Congress will have to cut other income security spending by \$5.3 billion.

## **Budget Makes Empty Promises**

The budget resolution makes empty promises by creating "deficit-neutral" reserve funds. These reserve funds have the appearance of addressing critical priorities, but fail to provide any new money to meet these needs.

- ***No New Money to Help the Uninsured*** — The budget resolution creates a reserve fund for health insurance for the uninsured, but fails to provide any new money to help the 43 million Americans who are without health insurance.
- ***No Funds for Health Care for Disabled Children*** — The Family Opportunities Act, which would expand eligibility and benefits for disabled children under Medicaid, enjoys widespread bipartisan support in both the House and Senate. However, the budget creates only a deficit-neutral reserve fund, which means that the budget cannot accommodate this legislation unless other spending cuts are made.
- ***Offset Contingency for Transportation*** — The budget resolution stipulates that if the House Transportation and Infrastructure Committee reports a transportation reauthorization bill larger than provided within the resolution, then the excess spending must be offset with increased receipts or spending cuts within the Highway Trust Fund.
- ***Military Survivor Benefits Must Be Offset*** — The Chairman's mark includes a provision for the Military Survivor Benefits program; however, it is in the form of a deficit-neutral reserve fund. In order to fund the Military Survivor Benefits program, other programs would have to be cut, and veterans' groups strongly oppose this budgetary gimmick.

## **Tax Cuts are The Top Priority**

***Chairman's Mark Provides Nearly \$153 Billion in Tax Cuts*** — The Chairman's mark provides for a total of \$20.7 billion in tax cuts in 2005, and \$152.6 billion in tax cuts from 2005 to 2009. Not all of these tax cuts are protected by reconciliation instructions. Tax cuts in the Chairman's mark are \$2.2 billion smaller than the President's request for 2005, and \$31.6 billion smaller than the President's tax cuts from 2004 through 2009. However, the House provides a bigger tax cut than the Senate budget resolution, with the House cutting taxes by \$152.6 billion over five years, as compared to the Senate's tax cuts of \$145 billion.

***Protected Tax Cuts of Nearly \$138 Billion Over Five Years*** — The Chairman's mark includes reconciliation instructions to the Ways and Means Committee to report legislation by October 1, 2004, that cuts taxes by \$13.2 billion in 2005 and \$137.6 billion over the five-year period. This amount allows for the extension of: (1) the \$1,000 child tax credit; (2) marriage penalty relief; (3) the ten percent individual tax rate bracket; (4) capital gains and dividends tax rate reduction; (5) section 179 small business expensing; and (6) estate tax repeal. Under Senate rules pertaining to reconciliation, these provisions could be extended only through 2009, the end of the period covered by the budget resolution.

***Additional \$15 Billion in Unreconciled and Unspecified Tax Cuts*** — The budget also includes \$15.0 billion in unreconciled tax cuts; however, it is unclear what tax policies this number assumes. Fifteen billion dollars is not enough to pay for either Alternative Minimum Tax (AMT) relief for individuals or the Research and Experimentation (R&E) Tax Credit. Extending AMT relief for an additional year – Tax Year 2005 – costs \$23.2 billion. Making the R&E Tax Credit permanent costs \$23.5 billion from 2004 through 2009. Therefore, in order to enact one of these tax cuts, Ways and Means would need to find offsetting spending cuts or tax increases of about \$8 billion. In order to finance both these provisions, Ways and Means must find about \$32 billion in offsets.